

New Delhi, the 30th December, 2005

OFFICE MEMORANDUM

**SUBJECT: GUIDELINES FOR PREPARATION OF OUTCOME BUDGET 2006-07 AND
PERFORMANCE BUDGET 2005 - 06**

Introduction

1. As the Ministries of Agriculture etc. are aware, a system of performance budgeting by Ministries handling development programmes was introduced in 1969 on the basis of the recommendations of the Administrative Reforms Commission. A need has for some time been felt to address certain weaknesses that have crept in the performance budget documents such as lack of clear one-to-one relationship between the Financial Budget and the Performance Budget and inadequate target-setting in physical terms for the ensuing year. Besides, there is growing concern to track not just the intermediate physical “outputs” that are more readily measurable but the “outcomes”, which are the end objectives of State intervention, as articulated by the Finance Minister in Para 100 of his Budget Speech (Budget 2005-06). Subsequently, the Prime Minister, in his letter dated March 17, 2005 addressed to all Union Ministers urged them to examine the programmes/schemes being implemented and convert their financial outlays into physical outcomes with quarterly targets in respect of each.
2. Outcome Budget 2005-06 was accordingly presented to both the Houses of the Parliament on August 25, 2005. The Foreword to this document lays down not only a conceptual framework but also a broad roadmap of direction of future reforms in this area. It would also be useful to refer to the Background Note prepared by this Ministry for circulation to the Consultative Committee of Members of Parliament in its meeting held on August 17, 2005. It was circulated to all the Ministries/Departments (vide Addl. Secretary (Exp)’s D.O. letter No. 2(1) Pers/E-Coord/OB/2005 dt November 9, 2005).

Scope of coverage in Outcome Budget 2006-07

3. The Outcome Budget documents will be prepared separately by each Ministry/Department in respect of all Demands / Appropriations controlled by them, except those exempted from this requirement and to the extent disclosures are not barred on considerations of security etc. A list of exempted Demands / Appropriations is enclosed at **Annexure I**. However, even the Ministries/Departments and other authorities “exempted” from preparation of Outcome Budget 2006-07 and placing it in public domain are requested to carry out this exercise for internal use and voluntarily deciding to place it in public domain, fully or partially.
4. Another important feature on which the work has to commence is in terms of sub-targets for coverage of women and SC/ST beneficiaries of State intervention and schemes for the benefit of the North-Eastern Region. Without making it mandatory, the Ministries/Departments are encouraged to attempt this as far as feasible.

Identification of ‘outcomes’ and process of converting ‘outlays’ into ‘outcomes’

5. Three key terms used in these guidelines, viz., ‘Outlays’, ‘Outputs’ and ‘Outcomes’ are elaborated in **Annexure II**. Converting ‘outlays’ into ‘outcomes’ is a complex process addressing “value for money” concerns; being more a management process than merely a financial process; and admitting possibilities of different approaches and modalities, which may differ from Ministry to Ministry and programme to programme. Preparation of the Outcome Budget is an evolving and dynamic process, which will require detailed scrutiny and examination on yearly basis, with value addition based on the preceding year’s experience. Some of the important steps in this conversion process are as follows:-

- a) Defining intermediate and final outcomes specifically in measurable and monitorable terms;
- b) Standardizing unit cost of delivery;
- c) Benchmarking the standards/quality of outcomes and services;

- d) Capacity building for requisite efficiency at all levels, in terms of equipment, technology, knowledge and skills;
- e) Ensuring adequate flow of funds at the appropriate time to the appropriate level, avoiding both delay and ‘parking’ of funds;
- f) Setting up effective monitoring and evaluation systems, to indicate the directions for further calibration and honing the processes, to deliver the intended outcomes;
- g) Involving the community/target groups/recipients of the service, with easy access and feedback systems.

Broad Format of Outcome Budget 2006-07

6. The Outcome Budget 2006-07 will be prepared on the basis of Budget 2006-07 in the form of a document, separate for each Ministry/Department, broadly consisting of the following three chapters:

Chapter I: This will detail the mandate, goals and objectives as well as policy framework and vision statement of the Ministry/Department.

Chapter II: This will contain a tabular format, which may be visualized as “vertical compression and horizontal expansion” of the Statement of Budget Estimate (SBE) included in the Expenditure Budget Vol. II (with suitably adapted format for Railways), with separate tables for separate Demands /Appropriations controlled by the Ministry/Department so as to establish a one-to-one correspondence between (Financial) Budget 2006-07 and Outcome Budget 2006-07. The details will comprise of the financial outlays, projected physical outputs and projected/budgeted outcomes (intermediate/partial and final, as the case may be). An indicative format for these Demand / Appropriation –wise tables is enclosed at **Annexure III**. Explanatory notes may be liberally added, wherever necessary. The following points may be noted in respect of the contents of Chapter II:-

- i) The description of items should exactly match with the description shown for the different items in the Statement of Budget Estimate (SBE) as included in Expenditure Budget Vol. II of the Budget 2006-07. Minor items may be clubbed to avoid cluttering up.
- ii) The term “complementary extra-budgetary resources” refers to the resources committed for the purpose by the entities other than the Central Government. Typically, it would include matching share from the State Governments for Centrally Sponsored Schemes or resource contribution by Public Sector Undertakings or by private parties in the case of public private partnership projects.
- iii) There should be a separate table for each Central Public Sector Enterprise (CPSE) under the administrative control of the Ministry, with itemized listing of major projects in hand. The Outcome Budget will be prepared on the basis of the “Central Plan Outlay” comprising of both the Gross Budgetary Support component as well as the Internal & Extra Budgetary Resources (IEBR) component of the Central Plan Outlay. Thus, the Outcome Budget in respect of CPSEs may be prepared even if there is no budgetary support.
- iv) Wherever a Ministry/Department has large Autonomous Bodies substantially dependent upon Government for financial support, separate tables may also be considered for each such organization as per the assessment of the Ministry/Department.
- v) The tables concerning CPSEs or Autonomous Bodies should list out important projects in hand and give such details as sanctioned cost, scheduled date of completion, total cumulative expenditure till the beginning of the year, total expenditure planned during 2006-07, likely date of completion, and the related “outputs” and “outcomes”.
- vi) The ‘final outcome’ need not necessarily be co-terminus with the annual outlays and ‘intermediate physical outputs’. ‘Final outcomes’ may span a longer time frame than the annual final outlays and corresponding intermediate outputs. Wherever the ‘final outcomes’ are estimated to take longer than one year, the estimated time frame should be clearly indicated. In case the gestation is four to five years or longer, the ‘partial outcomes’ need to be tracked on an annual basis to ensure that the ‘final outcomes’ once indicated as achievable after five years are not forgotten or mechanically repeated in the document from one year to the other, and that the progress made towards achieving the final goal is reflected. Information should be provided whether the project is in the ‘initial’ stage, ‘intermediate’ stage or ‘final’ stage.
- vii) Wherever ‘physical outputs’ are in a sense the ‘final outcomes’, assessment of ‘quality of output’ through ‘appropriate indicators of quality’ should be brought out.
- viii) Wherever ‘final outcomes’ are not the direct results of the annual outlays and are the cumulative effect of past several years’ outlays, this should be clearly explained.

- ix) The 'final outcome' component of the Outcome Budget need not necessarily have yearly targets, as final outcomes will vary by Ministry and Programme. 'Final outcome' wherever possible can be measured in a five year time frame in line with Five Year plans. 'Partial outcome' may be mentioned in these cases in the Outcome Budget of that year.
- x) Where the 'final outcomes' are not measurable and quantifiable, the likely benefits that will accrue may be incorporated.
- xi) The explanatory notes should attempt to bring out the role and financial commitment of other agencies that is required to fructify the intended outcomes of a particular scheme of the Ministry/Department, even though such agencies may or may not be directly involved in the implementation and may be providing complementary services.
- xii) The non-Plan expenditures are necessary to maintain the basic infrastructure without which the Plan interventions are bound to fail in meeting the intended objectives. Role of non-Plan expenditure is therefore supplementary and facilitative. Hence, outcomes cannot be categorized as Plan outcomes and non-Plan outcomes. The Outcome Budget 2006-07 will also cover non-Plan expenditure as far as possible. The column on Budget Support in 2006-07 would have two sub-columns "Plan" and "non-Plan" and the outcomes will be related to the total budget provision. Schemes / items in the Statement of Budget Estimates having only non-Plan expenditures, which can be linked to certain deliverable outputs, should find mention in the Outcome Budget.
- xiii) The outcomes are the ultimate aims of Government policy and budgetary support. In due course, capacity should be built to include "tax expenditures" as well, i.e., the revenue foregone in promotion of certain objectives but this does not apply to Outcome Budget 2006-07.

Chapter III: This will detail reform measures and policy initiatives, if any, taken by the Ministry/Department and how they relate to the intermediate outputs and final outcomes in areas such as public private partnerships, alternate delivery mechanisms, social and gender empowerment processes, greater decentralization, transparency, etc.

Broad Format of "Performance Budget 2005-06"

7. Every Ministry/Department will prepare its Performance Budget highlighting the performance at least up to the third quarter of 2005-06 (i.e. up to 31 December 2005). The document should broadly consist of the following chapters:

Chapter-I A brief introductory note on the functions of the Ministry/Department, organizational set up, programmes / schemes implemented by the Ministry/Department.

Chapter-II Financial review covering overall trends in expenditure vis-à-vis Budget Estimates / Revised Estimates in recent years, including the current year. Data should be segregated scheme-wise and object head-wise. Position of outstanding utilization certificates and unspent balances with States and implementation agencies should also be brought out.

Chapter-III Scheme-wise physical performance with the reasons for variations, explaining the scope and objectives of individual programmes/schemes, giving their physical targets and achievements,

Chapter-IV Review of performance of Statutory and Autonomous Bodies under the administrative control of the Ministry/Department.

Chapter-V (if applicable) Details of actual achievements vis-à-vis the intended outcomes indicated in the Outcome Budget 2005-06, i.e., "Outcome" of the "Outcome Budget 2005-06", with appropriate additional columns and explanatory notes, as required.

Certain presentational features

8. It is desirable that the above documents brought out by different Ministries/Departments have a common level of detailing, at least for a minimum set of disclosure parameters; separately in Hindi and English; be reader-friendly and adopt certain common printing formats. Accordingly, the following may be kept in view:

- i) In the case of Departments having total budget provision of less than Rs.100 crore (as per the netted figure shown in the Expenditure Budget Vol. II), all amounts may be shown in "Rs. in lakhs" with two decimal places. For others, the amount may be shown in "Rs. in crore" with two decimal places. The amounts may be shown with comma separators.

- ii) Each page may be given a running header giving the chapter number, title and page number running for the whole document from the 1st page of chapter I. The documents may be printed on the size of paper used for Detailed Demands for Grants.
- iii) Any other addition/alteration, inclusion of graphics/charts etc to improve readability of the document.

Planning for future refinements

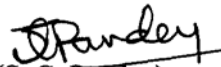
9. The Ministries/Departments are advised to put in place, if not already there, systems of data collection, with the help of specialized agencies wherever necessary, for the purpose of (i) developing measurable “indices of performance” to measure and assess quality of implementation ; (ii) developing norms of standard unit cost of delivery of a service; (iii) quantification/factoring in of environmental outcomes; (iv) quantification of community and empowerment outcomes through social capital formation; and (v) quantification of impact of funds earmarked for publicity/awareness generation. This will not only involve collecting data on past trends but also on present developments in markets and technology. The Ministries/Departments are encouraged to make use of the services of the Cost Accounts Branch of this Department in addressing the costing issues.

Independent Evaluation

10. The Ministries/Departments may engage independent evaluators and assessment agencies for scrutiny / evaluation of the achievements against physical outputs and final outcomes of major flagship schemes. Due care may be taken to avoid duplication of efforts with evaluation studies conducted by the Planning Commission or the Ministry of Programme Implementation.

Time schedule and responsibility

11. The Outcome Budget 2006-07 and the Performance Budget 2005-06 should be presented to both the Houses of Parliament, after final approval of the Minister in charge, latest by March 20, 2006 (before the Houses go into recess) so that these are available to the Departmental Standing Committees of Parliament for examination during the recess period. The Ministries/Departments should also place these documents in the public domain by putting it on their website after presentation in Parliament.
12. Responsibility for preparation of both these documents will rest essentially with the Ministries/Departments. The Financial Adviser of the Ministry/Department will be the nodal officer for coordinating the whole exercise and organizing “need-based consultations” with various officers whether within the administrative Ministry/Department, or with the Ministry of Finance, the Planning Commission and outside experts, with due regards to the confidentiality of the budget process.


(S. C. Pandey)

Officer on Special Duty
(Policy and Co-ordination)

All Secretaries to the Government of India
All Financial Advisers to the Ministries/Departments
All Heads of accounting wings in the Ministries/Departments
Copy to:- Member Secretary, Planning Commission

ANNEXURE I

**LIST OF DEMAND/APPROPRIATIONS IN RESPECT OF WHICH
OUTCOME BUDGET IS NOT MANDATORY**

The Outcome Budget 2006-07 is intended to cover the entire Central Plan Outlay (Gross Budget Support and Internal and Extra Budgetary Resources) and connected non-Plan provisions that are amenable to Outcome Budgeting. In general, a Ministry/Department may exclude the "Assistance to State Plan" component of its Plan Budget from the scope of Outcome Budget. The following demand/appropriations (as per Budget 2005-06) are specifically exempted from the purview of outcome budgeting. Demand numbers are.

Ministry of Defence
Defence Pensions
Defence Services - Army
Defence Services - Navy
Defence Services - Air Force
Defence Ordnance Factories
Defence Services - Research and Development
Capital Outlay on Defence Services
Interest Payments
Transfer to State and Union Territory Governments
Loans to Government Servants etc.
Repayment of Debt
Pensions
Indian Audit and Accounts Department
Cabinet
Transfers to Union Territory Governments
Election Commission
Supreme Court of India
Ministry of Parliamentary Affairs
Ministry of Personnel, Public Grievances and Pensions
Staff, Household and Allowances of the President
Lok Sabha
Rajya Sabha
Union Public Service Commission
Secretariat of the Vice-President
Andaman & Nicobar Islands
Chandigarh
Dadra & Nagar Haveli
Daman & Diu
Lakshadweep

Annexure II.

Outlays, Outputs and Outcomes

1. It is recognized that in the long process of conversion of outlays into outcomes, there are several intermediate stages and complementary resources are also required in achieving intended outcomes. The cause and effect chain is not always direct and several environmental factors come into play that influence the actual outcomes, not just the outlays earmarked. Nevertheless, a broad understanding of these would be helpful in finalizing the content of the Outcome Budget.
 - **Outlays** imply total financial resources deployed for achieving certain outcomes. Part of this money may come directly from the Government budget and part may be contributed by other stakeholders such as the State Governments, Public Sector Undertakings or even private parties in the growing area of Public Private Partnerships. As far as possible, total resource commitment should be brought out in the Outcome Budget with clear segregation of Central Government's budgetary support. The outlays should be segregated scheme-wise, covering both Plan/ Non Plan budget (as shown in the Expenditure Budget Vol II) for the financial year in monetary terms. In case of projects (whether Government or parastatal) spanning multi-year time frames, total sanctioned cost of the project and the planned annual expenditure both should be brought out as both are relevant 'outlays' for effecting linkage with outcomes.
 - **Outputs** are a measure of the physical quantity of the goods or services produced through an activity under a scheme or programme. They are usually an intermediate stage between 'outlays' and 'outcomes'. For example, construction/completion of a school building is the 'output', whereas increase in the literacy rate will be the 'final outcome'. Enrollment would be an "intermediate outcome". Similarly, for a social sector programme/scheme, the intermediate results before identifying, measuring and arriving at the 'final outcome' as per the objectives of the said programme/scheme, may be treated as 'output'. The purpose is to capture intermediate 'outputs' before identifying and measuring the 'final outcome'.
 - **Outcomes** are the end products/results of various Government initiatives and interventions, including those involving partnership with the State Governments, Public Sector Undertaking, Autonomous Bodies, private sector and the community. They involve much more than mere 'outputs', since they cover the quality and effectiveness of the goods or services produced as a consequence of an activity under a scheme or programme. The 'outcomes' will be measured keeping in mind the objectives of the programme/scheme by following appropriate methodology
2. Ministries may find it useful to refer to Millennium Development Goals, Plan documents and Performance Budgets in formulation of outputs and outcomes. Both the Outputs and Outcomes should be in measurable terms. This would typically be in terms of movement of absolute numbers and/or percentages over a certain time frame. The percentages may be in terms of annual growth or share in certain broader aggregate.
3. Major programmes listed in the SBE must be shown separately, while smaller items of SBE may be clubbed. An exercise to weed out schemes with sub-critical financial outlays or merge them appropriately into major programmes is separately being undertaken.
4. Typical examples of outcomes/outlays are given below for illustration:

OUTCOMES

- Improvement in literacy level from --% to ___% by a target year .or bringing ___(no.) of educationally most backward districts (or other administrative unit) to minimum 50% literacy by a target year.
- Similar targets for 'Infant Mortality Rate', 'Minimum employment guaranteed under law: % of population/districts covered', '% of children covered under immunization programme, % of villages provided with access to potable water, % of villages connected to block headquarters by all -weather road; % of villages/blocks/districts certified by Ministry of Labor as "Minimum Wage -compliant"; % share in total power generating capacity, volume of trade with developing countries; tourist arrivals; etc
- Sub-targets, to the extent feasible, for coverage of women, SC/ST population, Special Category States, North Eastern Region etc may be considered for further value-addition.

OUTPUTS

- Quantity and value goods/services produced or supplied; number of new schools, primary health centres or Anganwadis opened; number of children enrolled, enrollment ratio and retention ratio; number of beneficiaries assisted; amount of (subsidy linked) credit disbursed; number of mandays employment generated and value of assets created or incremental value of work in progress

ANNEXURE III

FORMAT OF TABLES IN CHAPTER II OF OUTCOME BUDGET 2006-07

(Rs. in crore or in lakhs, as prescribed)

S.No.	Name of Scheme/ Programme	Objective/ Outcome	Outlay 2006-07			Quantifiable Deliverables/ Physical Outputs	Projected Outcomes	Processes/ Timelines	Remarks/ Risk Factors
			4(i)	4(ii)	4(iii)				
1	2	3		4		5	6	7	8
			4(i)	4(ii)	4(iii)				
			Non-Plan Budget	Plan Budget	Complementary Extra-Budgetary Resources				

Notes:-

1. Items in Column 2 shall be as per Statement of Budget Estimate (SBE) included in Expenditure Budget Vol. II. Major programmes listed in the SBE must be shown separately, while smaller items of SBE may be conveniently clubbed. An exercise to weed out schemes with sub-critical financial outlays or merge them appropriately into major programmes is separately being undertaken.
2. Figures in Column 4(i) and 4(ii) as per Statement of Budget Estimate (SBE) included in Expenditure Budget Vol. II with Plan Budget figure including the amount allocable for NE out of lump sum allocation.
3. Figures in Column 4(iii) complementary extra-budgetary resources means expenditures committed for the purpose by entities other than the Central Government. Typically, it would include matching share from the State Governments for Centrally sponsored schemes or resource contribution by public sector undertakings or resources contributed by private parties in the case of public private partnership projects. Thus, it will include the IEBR figure in respect of CPSEs as per Statement of Budget Estimate included in Expenditure Budget Vol. II, which may be explained through a footnote.